

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Tax Increment Finance Authority of the City of St. Clair Shores</u>	County Macomb
Audit Date June 30, 2004	Opinion Date September 24, 2004	Date Accountant Report Submitted To State: November 23, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy.	City Southfield	State Michigan	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

**Tax Increment Finance
Authority of the City of
St. Clair Shores, Michigan**

**Financial Report
June 30, 2004**

Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

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Independent Auditor's Report

To the Board of Directors
Tax Increment Finance Authority of the
City of St. Clair Shores, Michigan

We have audited the accompanying basic financial statements of the Tax Increment Finance Authority of the City of St. Clair Shores, Michigan (a component unit of the City of St. Clair Shores, Michigan) as of June 30, 2004 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Tax Increment Finance Authority of the City of St. Clair Shores, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Tax Increment Finance Authority of the City of St. Clair Shores, Michigan as of June 30, 2004 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Tax Increment Finance Authority of the City of St. Clair Shores, Michigan has not presented a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the management's discussion and analysis is necessary to supplement, although is not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

September 24, 2004

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Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2004

	Governmental Fund	Adjustments (Note 1)	Statement of Net Assets
Assets - Cash and cash equivalents (Note 3)	<u>\$ 642,579</u>	\$ -	\$ 642,579
Liabilities			
Accounts payable	\$ 15,448	-	15,448
Accrued interest payable	-	20,395	20,395
Noncurrent liabilities (Note 4):			
Due within one year	-	230,000	230,000
Due in more than one year	<u>-</u>	<u>2,365,000</u>	<u>2,365,000</u>
Total liabilities	15,448	<u>2,615,395</u>	<u>2,630,843</u>
Fund Balance/Net Assets - Fund balance - Unreserved/			
Net assets (deficit) - Unrestricted	<u>627,131</u>	<u>\$ (2,615,395)</u>	<u>\$ (1,988,264)</u>
Total liabilities and fund balance	<u>\$ 642,579</u>		

Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2004

	Governmental Fund	Adjustments (Note I)	Statement of Activities
Revenues			
Property taxes	\$ 613,855	\$ -	\$ 613,855
Interest	3,181	-	3,181
Other	955	-	955
Total revenues	617,991	-	617,991
Expenditures			
Professional services	22,026	-	22,026
Administration	50,000	-	50,000
Repairs and maintenance	15,675	-	15,675
Blossom Heath Park	35,200	-	35,200
Streetscape project	20,039	-	20,039
New development	233	-	233
Other	7,793	-	7,793
Debt service:			
Debt principal	205,000	(205,000)	-
Debt interest	134,193	(1,664)	132,529
Total expenditures	490,159	(206,664)	283,495
Excess of Revenues Over Expenditures/ Change in Net Assets	127,832	206,664	334,496
Fund Balance/Net Assets (Deficit) - Beginning of year	499,299	(2,822,059)	(2,322,760)
Fund Balance/Net Assets (Deficit) - End of year	<u>\$ 627,131</u>	<u>\$ (2,615,395)</u>	<u>\$ (1,988,264)</u>

Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

Budgetary Comparison Statement Governmental Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
Revenues				
Property taxes	\$ 610,000	\$ 613,000	\$ 613,855	\$ 855
Interest	3,000	3,000	3,181	181
Other	-	1,000	955	(45)
Total revenues	613,000	617,000	617,991	991
Expenditures				
Professional services	40,000	25,000	22,026	2,974
Administration	50,000	50,000	50,000	-
Repairs and maintenance	8,500	17,000	15,675	1,325
Blossom Heath Park	30,000	30,000	35,200	(5,200)
Streetscape project	13,000	20,500	20,039	461
New development	5,000	5,000	233	4,767
Other	5,000	5,000	7,793	(2,793)
Debt service:				
Debt principal	205,000	205,000	205,000	-
Debt interest	135,000	135,000	134,193	807
Total expenditures	491,500	492,500	490,159	2,341
Excess of Revenues Over Expenditures	121,500	124,500	127,832	3,332
Fund Balance - Beginning of year	499,299	499,299	499,299	-
Fund Balance - End of year	<u>\$ 620,799</u>	<u>\$ 623,799</u>	<u>\$ 627,131</u>	<u>\$ 3,332</u>

Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2004

Note I - Significant Accounting Policies

The Tax Increment Finance Authority of the City of St. Clair Shores, Michigan (TIFA) is organized pursuant to Michigan Public Act No. 450 of 1980. The primary purpose of the TIFA is to encourage economic activity in the City of St. Clair Shores, Michigan (the "City"). This purpose is accomplished by the TIFA collecting captured property taxes in accordance with State law and budgeting expenditures for improvements in the TIFA district boundaries. The TIFA's governing body, consisting of 12 individuals, is appointed by the City Council.

The TIFA's basic financial statements present combined governmental fund modified accrual financial statements and government-wide full accrual financial statements. As of and for the year ended June 30, 2004, adjustments were made to the amounts in the governmental fund for long-term debt and related accrued interest in order to arrive at the government-wide full accrual financial statements. The TIFA has elected not to present a management's discussion and analysis.

The TIFA is a component unit of the City of St. Clair Shores, Michigan and is included in the basic financial statements of the City at June 30, 2004 as a discretely presented component unit.

Basis of Accounting

The accounting policies of the TIFA conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. There are no component units required to be included in these financial statements.

Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

**Notes to Financial Statements
June 30, 2004**

Note 1 - Significant Accounting Policies (Continued)

The following is a summary of the significant accounting policies:

The government-wide full accrual financial statements (the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. For the purpose of the government-wide financial statements, the TIFA reports a liability for the outstanding 1997 Tax Increment Bonds which will be repaid through captured property taxes in future periods. A significant portion of the TIFA's activities in previous years related to investments in infrastructure that are the property of and are reported as an asset in the basic financial statements of the City of St. Clair Shores, Michigan rather than in the TIFA's financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period, generally collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Note 2 - Budget Information

The annual budget is prepared and adopted by the TIFA Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a total expenditure basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the TIFA Board is included in the basic financial statements. This statement is presented on a line-item basis for informational purposes.

Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Cash and Cash Equivalents

The TIFA's cash and cash equivalents are classified by Governmental Accounting Standards Board Statement No. 3 in the following categories:

Bank deposits	\$ 1,743
Investments - Bank investment pools	<u>640,836</u>
Total	<u>\$ 642,579</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$1,368, all of which was covered by federal depository insurance.

Investments

The TIFA is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles. The TIFA's investments during the year consist solely of bank investment pools. Investments are normally categorized to give an indication of the level of risk assumed by the TIFA; however, bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Note 4 - Long-term Debt

Long-term debt consists of the 1997 Tax Increment Bonds with interest rates ranging from 4.50 percent to 5.25 percent and maturing through 2012.

The following is a summary of long-term debt transactions for the year ended June 30, 2004:

Balance - July 1, 2003	\$ 2,800,000
Debt retired	<u>(205,000)</u>
Balance - June 30, 2004	<u>\$ 2,595,000</u>

Tax Increment Finance Authority of the City of St. Clair Shores, Michigan

Notes to Financial Statements June 30, 2004

Note 4 - Long-term Debt (Continued)

The annual requirements to service the outstanding debt are as follows:

	Principal	Interest	Total
2005	\$ 230,000	\$ 124,073	\$ 354,073
2006	245,000	112,788	357,788
2007	285,000	99,996	384,996
2008	315,000	85,368	400,368
2009	335,000	69,359	404,359
2010	375,000	51,599	426,599
2011	395,000	31,959	426,959
2012	415,000	10,893	425,893
Total	<u>\$ 2,595,000</u>	<u>\$ 586,035</u>	<u>\$ 3,181,035</u>